Statement Submitted
By
National Beer Wholesalers Association

Committee on Ways and Means

Hearing on the Treatment of Closely-Held Businesses in the Context of Tax Reform

March 7, 2012

Chairman Camp, Ranking Member Levin, Members of the Ways and Means Committee, the National Beer Wholesalers Association (NBWA) appreciates the opportunity to comment on the treatment of closely-held businesses in tax reform. The NBWA is a trade association that represents the interests of the 3,300 licensed, independent beer distributors - with operations located in every state and congressional district across the United States. NBWA members directly employ approximately 98,000 hardworking Americans who earn good wages and receive employer-provided benefits.

NBWA member companies are closely-held businesses. For them, tax reform represents a potential opportunity to improve the tax laws by reducing unnecessarily high tax rates while simplifying the rules by eliminating narrow, special benefits that apply to a limited number of taxpayers. However, like other closely-held businesses, NBWA members are anxious about tax reform. Based on some of the incomplete tax reform proposals that have been discussed to date, distributors are worried that tax reform could result in significantly higher taxes on their business income.

As is common for closely-held businesses, NBWA member companies are generally organized as partnerships, limited liability companies, or S corporations. Along with sole proprietorships, these business types are treated as "flow-through entities" under the tax law – the business owners pay tax directly on the income of the business. As a recent Ernst & Young study revealed, businesses organized in "flow-through" form account for more than half of all jobs in the United States. **Any tax reform that results in a higher tax burden for these flow-through businesses would harm their ability to continue to serve as the main producers of jobs in the U.S. economy.**

As the Ways and Means Committee continues to consider tax reform, we believe it should keep in mind a few basic principles to avoid an adverse impact on closely-held businesses.

First, tax reform should be comprehensive, encompassing both businesses and individuals. Tax reform that is limited to reducing corporate tax rates and that is paid for by eliminating business tax deductions and credits across-the-board could result in significantly higher taxes on the income of the 95% of U.S. business entities organized in flow-through form.

A corollary is that tax reform must set the tax rates of corporations and individuals at the same, lower rates. The top tax rates on flow-through business income are already set to increase from 35% in 2012 to nearly 45% in 2013. And some in Congress have suggested increasing the top individual tax rates paid on flow-through business income even higher. The tax rates on closely-held business income should be reduced, not increased.

Congress should also continue to seek ways to eliminate the economic distortions caused by the double taxation of corporate income. The Administration has proposed to nearly triple the top individual tax rate on dividends. As Chairman Camp pointed out during a hearing last month, "because dividends are paid out of income that has already been taxed at the corporate level and then are taxed again in the shareholder's hands, this proposal would push the total federal tax rate on dividends to 64%." Flow-through business entities are not subject to this punitive

double-taxation, but this comes at a significant price; in order to retain their flow-through status, they are denied access to public capital markets.

As Chairman Camp noted in the announcement for this hearing, some have suggested the idea of subjecting existing flow-through entities to double taxation as C corporations. Obviously such an idea would harm affected closely-held businesses and would cost them in their ability to invest and provide jobs. The double-taxation of corporate income is almost universally recognized to be undesirable, so subjecting thousands or millions of additional businesses to a double-tax regime cannot be viewed as a "reform." Expanded double-taxation certainly would not result in the type of pro-growth tax system that should be the Committee's goal.

With regard to the accounting concerns that are also a subject of this hearing, NBWA would urge the Committee to avoid in tax reform accounting changes that have retrospective impact or that will result in an acceleration of taxes paid by closely-held businesses. An example of such an accounting change is the Administration proposal to repeal the last-in-first-out (LIFO) method of inventory accounting. Repeal of LIFO would have an immediate adverse impact on the cash flow of NBWA members and others maintaining LIFO inventories. As a result of LIFO repeal, these businesses would owe significantly more in current taxes without having any additional business receipts out of which to pay those taxes. Any such impact on business cash flows would jeopardize the ability of affected businesses to continue to provide jobs.

Beer distributors continue to provide tremendous employment opportunities to hard-working men and women across the nation. We look forward to the opportunity to work with you and your Committee during the tax reform process and will do all that we can to ensure that America's small businesses will not be negatively impacted by tax reform.

Thank you for your consideration of NBWA's views.

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